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AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: **14 January 2011**

Title: **2010/11 FINAL ACCOUNTS PROCESS**

Report of: **The Assistant Director (Resources)**

Report reference: **RD 72/10**

Summary:
This report provides information regarding the 2010/11 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed. The 2010 Code of Practice on Local Authority Accounting (The Code) introduces significant changes to the way authorities prepare their accounts due to the implementation of International Financial Reporting Standards with effect from 1st April 2010, which are set out in the report.

Recommendations:
Members are asked to note the report.

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CITY OF CARLISLE

To: The Audit Committee RD 72/10
14 January 2011

2010/11 FINAL ACCOUNTS PROCESS

1 INTRODUCTION

1.1 The Accounts and Audit Regulations 2003 require that the City Council's Statement of Accounts for 2010/11 be submitted to a relevant body of the Council (this is currently full Council) for approval by 30 June 2011. Prior to approval, the Audit Committee will be required to scrutinise and consider these accounts for recommendation to Council at their June meeting. Members should note that these accounts are based upon information contained within the provisional out-turn reports which are presented to the Executive and Resources Overview and Scrutiny Committee in early June.

1.2 Following the approval process, the Audit Commission will commence its audit of the Accounts, which must be completed by 30 September. The Audit Commission will then produce its Annual Governance Report. This report, which summarises the audit work undertaken, conclusions reached and any subsequent recommendations, will be considered by the Audit Committee at its September meeting. The Assistant Director (Resources) may provide a response report to that same meeting.

1.3 The Auditors will issue their Audit Certificate and formal opinion on the accounts once the Audit Committee has approved the Governance Report. The Accounts must then be published and will be available in hard copy and on the Council's website.

1.4 In order to provide a set of Accounts by these deadlines which are also in accordance with relevant Codes of Practice, Regulations and Guidance, the final accounts process commences in January with the production of an internal timetable for the completion of the various tasks involved. This timetable is monitored by Financial Services officers and progress reported to the Senior Management Team throughout the final accounts process as it is essential that a corporate approach be taken to achieve a set of Accounts which gives a true and fair view of the financial position of the Authority.

1.5 The 2010/11 accounts will be the first full set of accounts prepared under the International Financial Reporting Standards (IFRS) and represent a significant change in the way the accounts are prepared and presented. This Committee has been kept informed of the transition to IFRS through previous reports.

2. IMPROVEMENTS

2.1 The 2009/10 Annual Governance Report considered by the Audit Committee on 24 September 2010 acknowledged continuing significant improvements in the final accounts process compared to previous years. However it also set out four recommendations, namely

- Ensure that greater consideration is given to compliance with all Financial Reporting Standards in producing the financial statements.
- Ensure that the 2010/11 financial statements are fully compliant with the new International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (the Code).
- Ensure that when advertising the audit the correct period of notification of the public inspection of the accounts is given so as to comply with the 14 days notice required by s16 of the Accounts and Audit Regulations 2003.
- Review the cash-flow forecasting system to minimise the need for short term borrowing whilst at the same time having short term investments.

Work has already commenced to ensure that these issues are addressed prior to the production of the 2010/11 Accounts. Improvements were made in 2009/10 and the requirements of the Financial Reporting Standards are under continuous review.

3. SUMMARY OF THE CHANGES ARISING FROM THE 2010 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

3.1 Previous Statement of Recommended Practices (SORPs) introduced significant changes to the way authorities have to prepare their accounts. The significant change for 2010/11 is the introduction of a new Code of Practice on Local Authority Accounting to aid the implementation of International Financial Reporting Standards (IFRS). This new Code replaces previous versions of the SORP. The 2010 Practitioners Guidance notes, which are supplementary to the Code, were only received at the end of December and the implications of these are currently being assessed. Work will continue to assess the guidance notes and a report will be presented to the Committee in April with further details, if necessary. A training session is also proposed for June, which will aid Members understanding of the changes and the impact on the accounts.

3.2 The financial statements of the Council have previously been prepared using accounting policies based on UK Generally Accepted Accounting Practice (UKGAAP).

3.3 The accounts for 2009/10 are currently being restated in order to place them on an IFRS basis so that comparative figures and opening balances can be used in preparing the 2010/11 accounts.

4. ACCOUNTING POLICIES

4.1 The existing Statement of Accounting Policies has been reviewed to reflect the changes in the 2010 Code of Practice and also to provide further explanation of other existing policies. These are attached at **Appendix A** and are based upon the **draft** Code of Practice. Once the final Code of Practice Guidance notes have been reviewed, any changes may need to be brought back to Members in April. Members are asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2010/11 Accounts.

4.2 To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2010 Code of Practice, a training session is proposed for Members at their meeting in June.

5. RECOMMENDATIONS

Members are asked to note the report.

PETER MASON
Assistant Director (Resources)

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Appendix A

SECTION 2 – STATEMENT OF ACCOUNTING POLICIES

2.1 General

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. It has been prepared in accordance with the ***Code of Practice on Local Authority Accounting in the United Kingdom 2010: Based on International Reporting Standards***. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

This section discloses the specific accounting policies adopted by the Council for the completion of the accounts.

2.2 First Time Adoption of the Code of Practice 2010: Based on International Reporting Standards.

These financial statements are the first Carlisle City Council financial statements prepared in accordance with the Code of Practice 2010: Based on International Reporting Standards. The Council has applied IFRS 1 in preparing these financial statements, except where interpretations or adaptations to fit the public sector are detailed in the Code. Carlisle City Council's financial statements until 31 March 20010 were prepared in accordance with previous Code of Practice 2009:The SORP which was based largely on UK GAAP. When preparing the 2010/11 financial statements, certain accounting and valuation methods applied in the SORP 2009 financial statements were amended to comply with IFRS. The comparative figures for 2009/10 were restated to reflect these adjustments.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. See note xx for reconciliations and descriptions of the effect of transferring from UK GAAP to IFRS on the Council's opening balance sheet at 1 April 2009, closing balance sheet at 31 March 2010 and Comprehensive Income Statement for the year ended 31 March 2010.

2.3 Property, Plant and Equipment

(i) Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of council services, for rental to others, or for administrative purposes on a continuing basis.

All expenditure on the acquisition, creation or enhancement of property, plant and equipment has been capitalised on an accruals basis provided that it yields benefit to the Council for more than one financial year. All other expenditure on assets is charged to revenue as it is incurred. Tangible fixed assets also include assets held under finance leases, which have been capitalised and included in the Balance Sheet at the lower of fair value of the property and the present value of the minimum lease payments.

De-minimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant and equipment; and
- £20,000 for expenditure on land, buildings and other structures.

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- non specialised operational properties – fair value (existing use value);
- specialised operational properties – depreciated replacement cost;
- dwellings– fair value (existing use value);
- infrastructure and community assets – depreciated historic cost.
- vehicles, plant and equipment – depreciated historic cost (as a proxy for fair value);

Assets included in the balance sheet at current value are revalued where there have been material changes in the value but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

(ii) Impairment

The values of each category of property, plant and equipment are reviewed annually for evidence of reductions in value. Where impairment is identified as a result of this review or as a result of changes arising from annual valuations, this is accounted for by writing off the impairment against any revaluation gains attributable to the relevant asset in the revaluation reserve, with any excess charged to the relevant service revenue account.

Impairment losses are not a charge against council tax. The balance on the Comprehensive Income and Expenditure Statement arising from an impairment loss is appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

(iii) Sales

The Council has to account for gains and/or losses incurred on the sale or disposal of its property, plant and equipment through its Comprehensive Income and Expenditure Statement. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the assets at the time of the disposal). The net gain/loss on disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. The net carrying value of assets disposed is therefore appropriated to the Capital Adjustment Account through the Movement in Reserves Statement. Sales proceeds meeting the definition of capital receipts are appropriated from the General Fund and credited to the Usable Capital Receipts Account via an adjustment within the Movement in Reserves Statement. These are then used to finance capital expenditure.

(iv) Component Accounting

Where a component of a fixed asset is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the carrying amount. Each part (component) of an item of property, plant and equipment that is significant in relation to the total cost of the item is depreciated separately.

2.4 Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and provide benefit to the Council for periods of more than one year is also capitalised. These assets are held at cost and written off over their economic lives, dependent on the type of asset. Software development costs that are directly attributable to bringing a computer system or other computer operated machinery into working condition for its intended use are treated as part of the cost of the related hardware rather than as a separate intangible asset.

Intangible assets are reviewed annually for evidence of reductions in value. Where an intangible asset’s recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Comprehensive Income and Expenditure Statement.

2.5 Investment Property

Investment properties are used solely to earn rentals or for capital appreciation or both. It is not used to facilitate the delivery of services or production of goods.

Investment property is measured initially at cost, after initial recognition it is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised on the Surplus or Deficit on the provision of services for the period in which it arises. Investment properties held at fair value are not depreciated.

When an investment property is disposed of, it is derecognised and any gain or loss on disposal is recognised in the Surplus or Deficit on provision of services.

Investment property interests that are held under an operating lease and are provided to a lessee under an operating lease are accounted for as if it were a finance lease. Impairment losses are not a charge against council tax. The balance on the Comprehensive Income and Expenditure Statement arising from an impairment loss is appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

2.6 Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties and assets held for sale), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is calculated on the following bases:

Asset Category	Rate	Basis
Operational Buildings	10-80 years	Straight Line
Infrastructure Assets	40-80 years	Straight Line
Operational Vehicles & Plant	3-25 years	Straight Line
Intangible Assets	3-20 years	Straight Line

Under the 2010/11 Code, depreciation also has to be calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

2.7 Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- reductions in asset values that are not covered by a balance in the Revaluation Reserve; and
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its outstanding borrowing. This is known as the Minimum Revenue Provision and is calculated as 4% of the Council’s capital financing requirement at the start of the financial year.

Depreciation, impairment losses and amortisation’s are therefore replaced by a revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

2.8 Leases

(i) Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Rental payments are apportioned between a charge for the acquisition of the interest in the asset, which is recognised as a liability in the balance sheet at the start of the lease and matched with a tangible fixed asset and liability written down as the rent becomes payable, and a finance charge (debited to the Comprehensive Income and Expenditure Statement as the rent becomes payable). Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets.

(ii) Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals are charged directly to the Council's income and expenditure account on a straight-line basis over the life of the lease.

The Council also acts in the capacity as lessor for the lease of land and property it owns. Rents due under operating leases are accounted for on an accruals basis as they become due. Lease arrangements are reviewed regularly by the Property Services section and where increases in rent are agreed, the additional income is accounted for in the year the lease review is completed and the revised rent becomes due. Where the Council acts as lessor, land and property leased under operating leases are held as a fixed asset within the Balance Sheet and valued in accordance with the measurement bases set out in note x.

2.9 Revenue Expenditure Funded from Capital Under Statute

Some capital spending does not result in the creation of an asset and this spending is known as revenue expenditure funded from capital under statute. This was previously known as Deferred Charges. This includes items of expenditure such as Renovation Grants and Disabled Facilities Grants. It is Council policy to write off the value of revenue expenditure funded from capital under statute to services and reflect them in the Comprehensive Income and Expenditure Statement in the year they arise. The Movement in Reserves Statement is then adjusted to neutralise the effect of the write off on the amounts to be raised through council tax in the year.

2.10 Capital Receipts

Capital receipts are generated from the sale of Council assets and can be used to pay for capital spending or be set aside to repay debt. Receipts from the sale of assets with a value of less than £10,000 are included in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal of assets. They are not reversed out through the Movement in Reserves Statement and remain as a credit to the General Fund.

2.11 Accruals of Income and Expenditure

Income and expenditure is accounted for in the year it relates to, not simply when cash is either received or paid. In particular:

- fees and charges and other receipts from customers are accounted for as income at the date the Council provides the relevant goods or services;

- works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet;
- interest paid or received is accrued and accounted for in the period to which it relates on the basis of the effective interest rate for the relevant financial instrument that reflects the overall effects of the borrowing or investment generating the interest;
- where income and expenditure has been recognised, but cash has not yet been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet; and
- supplies and services are accrued and accounted for in the period they are received or used. An exception occurs in respect of payments for energy and other similar quarterly payments that are charged at the meter reading date rather than being apportioned between financial years. This process is consistently applied each year and therefore does not have a material effect on the accounts.

Where there is an uncertainty that all the income accrued and accounted for will be collected, a provision for bad debts is charged to the income and expenditure account, reflecting the value of the income that might not be collected.

2.12 Cash and Cash Equivalents

Cash comprises cash on hand and deposits held at call (e.g. overnight balances) with financial institutions and bank overdrafts. Cash equivalents are short-term, highly liquid investments, with original maturities of three months or less, that are readily convertible to know amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Stocks and Work in Progress

Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and IAS 2 Inventories, which requires stocks to be shown at the lower of cost or net realisable value where they are acquired through an exchange transaction. Stock values reflect a provision for items becoming obsolete.

Work in progress is valued at cost in the balance sheet.

2.14 Employee Benefit Liabilities

These include and wages and salaries, annual leave and flex-time balances at year end. These liabilities are expected to be settled within 12 months of the reporting date. They include employees services up to the year end date and are measured at the amounts Carlisle City Council expects to pay when the liabilities are settled.

2.15 Non Current Assets Held For Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non current assets held for sale are:

- Available for immediate sale in their present condition
- The sale is highly probable
- The asset must be actively marketed for a sale price that is reasonable
- The sale should be expected to complete in one year.

Non- current assets held for sale are measured at the lower of their carrying amount and fair value less selling costs. Any reduction in asset value is recognised as an impairment loss. A gain is recognised for any subsequent increases in fair value less costs of sale, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset is recognised at the date of sale.

Non-current assets held for sale are not depreciated or amortised and are disclosed separately from other assets in the Balance Sheet.

2.16 Overheads and Support Services

The costs of overheads and support services are apportioned to services using the principles contained in CIPFA's Best Value Accounting Code of Practice 2010. The main methods of apportionment are as follows:

- support services have been fully recharged to services based on time allocations completed by members of staff; and
- the running costs of the Civic Centre have, with the exception of telephone costs, been apportioned to services on the basis of floor area occupied. Telephone costs have been apportioned on the basis of system usage.

The exceptions to these methods of apportionment relate to the costs for the Corporate and Democratic Core, which recognise the Council's status as a multi-functional democratic organisation, and certain non-distributed costs in relation to pension benefits. These costs are separately identified in the Comprehensive Income and Expenditure Statement as part of the Net Cost of Services.

2.17 Provisions

Provisions are required for any liabilities of uncertain timing or amount in circumstances where:

- the Council has a present legal or constructive obligation as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made, taking into account the risks and uncertainties surrounding the obligation.

A transfer of economic benefits is regarded as being probable if it is more likely than not to occur.

Provisions are charged to the appropriate revenue account of the Council and expenditure related to the provision is charged directly to that provision.

The value of provisions is reviewed at each balance sheet date to reflect current best estimates.

2.18 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and these do not represent usable resources for the Council.

The level of Council reserves is shown in the Balance Sheet and details of the individual reserves are shown in the Movement in Reserves Statement.

2.19 Retirement Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS), administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a deferred benefit scheme it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria County Council Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.

- Liabilities are discounted to their value at current prices using a real discount rate of 6.1%.

- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.

  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

  Around 90% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into seven components and recognised in the Statements as follows:

  - **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.

  - **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.

  - **Interest cost** – the expected increase in the value of liabilities during the year as they move one year closer to being paid is charged to Net Operating Expenditure within the Comprehensive Income and Expenditure Statement.

  - **Expected return on assets** – the annual investment return on fund assets attributable to the Council, based on an average of the expected long-term return is credited to Net Operating Expenditure within the Comprehensive Income and Expenditure Statement.

  - **Gains and losses on settlements and curtailments** – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are charged to Non-Distributed Costs within Net Operating costs in the Comprehensive Income and Expenditure Statement.

  - **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions are charged to other income and expenditure in the Comprehensive Income and Expenditure Statement..

  - **Contributions paid to the Cumbria County Council Pension Fund** – cash paid as employers' contributions to the pension fund

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note xxx to the Accounts.

Statutory provisions allow the Council to increase council tax to cover the amounts paid by the Council to the pension fund in the year. This therefore means that within the Movement in Reserves Statement, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision and accounted for using the same policies as are applied to the LGPS.

2.20 Financial Instruments

Financial instruments held by the Council are all classed as either financial liabilities or financial assets (loans and receivables) under the 2010/11 Code. The following items meeting the new definition are contained within the Council's balance sheet.

Financial Liabilities

(i) Borrowing

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12 month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year under the loan agreement.

(ii) Creditors

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

Financial Assets

(iii) Loans and Receivables

(a) **Investments**

Investments are classed as either long-term assets, repayable after 12 months or longer, or as current assets if repayable within a 12-month period. Investments are shown in the Balance Sheet at amortised cost using the effective interest rate of the individual investments. For all the investment that the Council has made, this means that the amount shown in the balance sheet is the amount of principal due to be repaid to the Council and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable by the Council under the loan agreement.

(b) Debtors (including mortgages)

Debtors are recognised when a contractual arrangement is entered into between the council and a debtor for the Council to provide goods and services for an agreed sum. The value of debtors in the balance sheet represents the current value of the outstanding debts owed to the Council at 31 March as a proxy for amortised cost.

(c) Car Loans

Car Loans are provided to staff deemed to be essential users at a discounted rate of interest and therefore meet the definition of a soft loan within the 2010/11 Code. The value of car loans provided has not been recalculated at fair value as the difference between interest at fair value and the actual loan interest charged is not considered material.

Further details on Financial Instruments can be found in note xxx to the Financial Statements.

2.21 Gains and Losses on Debt Restructuring

The Council does not currently hold any balances in relation to gains and losses arising from debt restructuring. The Council nevertheless has adopted the principles contained within the 2010/11 Code and will therefore reflect any such gains or losses within its accounts using the following policies: -

Gains and losses associated with discounts and premiums on the repurchase or early settlement of borrowing will normally be recognised in Net Operating Costs within the Comprehensive Income and Expenditure Statement in the period in which the repurchase or settlement is made. The Movement in Reserves Statement will then be adjusted to neutralise the effect on the amounts to be raised through council tax in the year, by charging or crediting the Financial Instruments Adjustment Account. This reserve will in turn be written off over the remaining life of the new loan to the Movement in Reserves Statement as permitted by statute.

Where a loan with the same lender is modified, i.e. where the net present value of the replacement or modified loan varies by no more than 10% of the original loan and the exchange of loans takes place on the same day, then the effect of the resulting premium or discount can be charged to Net Operating Costs over the term of the replacement loan, rather than in the year the premium or discount arises.

2.22 Government Grants

Revenue grants are recognised as income at the date the grant conditions are met, giving reasonable assurance that the grant will be paid by the funding body. Grant income is therefore accrued and credited to the Comprehensive Income and Expenditure Statement in the same period in which the related revenue expenditure has been charged.

Grants and contributions used to finance the acquisition of a fixed asset are credited to capital receipts in advance and are recognised in the Comprehensive Income and Expenditure Statement when any conditions are met. These grants are reversed to the Capital Grants Unapplied Account until the expenditure is incurred, in which case they are transferred to the Capital Adjustment Account.

2.23 Value Added Tax

Value Added Tax is only included as income and expenditure received or paid by the Council if it is classed as irrecoverable by HM Revenue and Customs.

2.24 Group Accounts

The authority has reviewed its interests with external bodies in 2010/11 as required by the Code. The Council's analysis has concluded that it does not have any interests in subsidiaries, associated companies and joint ventures that are material both individually and in aggregate and therefore there is no requirement to produce a set of Group Accounts.

2.25 Prior Period Adjustments

There are no adjustments to the accounting policies adopted by the Council that require significant changes to the accounts other than those which are as a result of the 2010 Code. These are outlined in the application of the first time adoption accounting policy and note xxx for reconciliations and descriptions of the effect of transferring from UK GAAP to IFRS on the Council's opening balance sheet at 1 April 2009, closing balance sheet at 31 March 2010 and Comprehensive Income Account for the year ended 31 March 2010.

2.26 Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the notes for:

- Fixed assets
- Provisions
- Contingent Assets
- Contingent Liabilities

2.27 Events after the Balance Sheet Date

Post Balance Sheet Events are considered up until the date of that the financial statements are authorised for issue.

2.28 Area Based Grant

Area Based Grant, (ABG), replaced Local Area Agreement, (LAA), with effect from 1 April 2008. ABG is a non-ringfenced general grant, which has no restrictions imposed upon its usage, unlike LAA Grant. ABG is received directly by the Council from government, rather than being received indirectly through Cumbria County Council, as with LAA Grant. ABG is accounted for in the Comprehensive Income and Expenditure Statement along with other general income sources.

2.29 Contingent Assets and Liabilities

Contingent assets and liabilities are not recognised in the financial statements but are disclosed as a note to the accounts, unless the possibility of inflow/outflow of resources is remote. They are assessed continually to determine if the inflow/outflow is probable. In the case of a contingent liability if the outflow becomes probable a provision is recognised, except in the extremely rare circumstances in which a reliable estimate cannot be made. A contingent liability shall still be disclosed in the rare case where a liability exists but a reliable estimate cannot be made. If the inflow from a contingent asset becomes probable and can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change occurs.